

Palmistry Productions Inc.

Productivity In The Palm Of Your Hand

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Executive Summary

Palmistry Productions is a 1-year-old producer of software-based productivity solutions for automobile dealers. The initial product is an inventory management system for portable palm-top computers.

Many automobile dealers complain about the lack of good inventory management systems. Current solutions involve paper stock cards, sales slips and invoice books, which are frequently out-of-date, inaccurate and time-consuming to maintain.

Additional problems with existing inventory management solutions include employees' inability to access inventory records while on the showroom floor or away from the office. This leads to missed sales opportunities, as employees must return to the office or call a prospect later to provide information about the availability of a particular model.

The PalmPal inventory management system produced by Palmistry Productions Inc. runs on PalmPilot portable computers. These pocket-sized machines have become the best-selling product in the history of the computer industry, producing sales of more than 3 million units since they were introduced in 1996 by what is now a division of 3Com. Many successful industry-specific software solutions running on the Pilot have been introduced.

Palmistry Productions was created specifically to produce Pilot-based software solutions for automobile dealers. The founder and CEO, Bradley Regent, spent approximately 10 years as an information systems manager for automobile dealerships in Ohio and Pennsylvania. Mr. Regent has considerable expertise in information systems, understanding of dealership information issues and contacts with the individuals responsible for purchasing information technology for dealerships. He has been joined by a team consisting of a marketing manager, a programmer and an office assistant.

After spending approximately nine months developing the PalmPal product, including market research, programming and testing, initial sales of the product have been encouraging. Several of the largest dealers in the Cincinnati area have tested the programs, and at least two regional chains are also trying them out.

The company was initially backed with \$80,000 in funds provided by the founder. At this point, Palmistry is seeking an additional \$500,000 to be used to market and distribute PalmPal nationwide. The company anticipates no difficulty raising this sum through a private equity placement of preferred stock, based on strong initial acceptance of the product and numerous pending sales.

The Palmistry Management Team

One of the strong points of Palmistry Productions is the industry experience possessed by members of its management team.

Bradley Regent

CEO

Prior to founding Palmistry, Mr. Regent worked for several large automobile dealerships as a programmer, systems analyst and information systems manager. Mr. Regent, a native of Cincinnati, graduated in 1985 with a degree in computer science from Ohio State University. Following two years with a large systems integrator in Cincinnati, Mr. Regent began working in the automobile dealership industry.

Mr. Regent has extensive experience in specifying, developing and maintaining inventory management systems for automobile dealerships. He's received professional training and certification as a developer in Oracle, SAP, Microsoft SQL and DB2 database environments. He has acted as manager of information systems departments of up to seven persons.

Mr. Regent's primary responsibilities at Palmistry will be formulating long-range strategy, participating in product development, managing the anticipated growth of the company and interfacing with investors, customers and suppliers. Mr. Regent is the primary owner of Palmistry at present, holding 80 percent of the corporation's stock.

Wanda McIntire

Vice President Of Marketing

Ms. McIntire has worked for five years as a marketing specialist for two different companies serving the information systems needs of the automobile dealership industry in Kentucky and Indiana. Ms. McIntire has specialized experience in positioning and marketing new information systems products intended for automobile dealers. She was responsible for developing the initial marketing plan for Parts Perfect, a parts inventory management system developed by Autosoft Systems that is now in use by more than 500 dealerships nationwide. Ms. McIntire graduated from Tulsa University in 1992 with a degree in business.

Ms. McIntire's responsibilities at Palmistry consist of formulating and implementing marketing strategy, participating in product development and working with customers and prospects. She holds approximately 5 percent of the shares in the corporation.

Perry Honeywell**Program Developer**

Mr. Honeywell was one of the first 20 employees of Helping Hand Systems, a Palo Alto, California, company that is now the largest third-party supplier of software for the PalmPilot computer system. He was responsible for leading the team that designed and produced Third Hand, a data collection system running on the PalmPilot that is now in use in ISO 9000 quality control programs around the world. He has received computer science degrees from the San Francisco University and the University of California at Berkeley.

Mr. Honeywell's responsibilities at Palmistry consist of overseeing program operation and interface design, and creating and testing code. He is the holder of approximately 10 percent of the corporation's shares.

Steven Wise**Human Resources And Administrative Manager**

Mr. Wise has particular expertise in the interviewing, screening and hiring of applicants for positions with information systems firms. For the past three years, he has been in charge of staffing and administration for Staple Systems, a Cincinnati electronic commerce software firm that grew from three to more than 40 employees during the period while producing leading-edge software that has been well-received in the marketplace.

Mr. Wise's responsibilities at Palmistry consist of managing office operations, including bookkeeping, accounts receivables and payables, as well as dealing with outside suppliers. As the company grows, he will be responsible for recruiting and hiring program designers, programmers, testers and other employees. Mr. Wise is the holder of approximately 5 percent of the company's shares.

The PalmPal Product

PalmPal is a compact, rugged, flexible and cost-effective software solution to the mobile inventory management needs of automobile dealerships. The program is constructed in the Palm OS environment, the operating system of the computing industry's most popular handheld computing device. The following table summarizes PalmPal features and benefits to customers.

PalmPal Features And Benefits	
Features	Benefits
Thoroughly tested software residing in a shock-resistant device that is pocket-sized and battery-operated.	Ready supply of inventory data in a portable, rugged and inexpensive package.
Highly customized application for quickly and easily transferring inventory information and updates both to and from desktop systems to a PalmPilot.	Ability of salespeople to provide customers with accurate availability information on specific automobile models even when off-site or away from a terminal.
Ability to interface with desktop-based inventory management systems from EDS, Dealer Solutions, ATP, Reynolds & Reynolds and others.	Design reflects intimate understanding of the needs of automobile dealerships.

Palmistry believes that competing products, all of which are based on older laptop hardware designs or outdated paper systems, cannot match the PalmPal's combination of flexibility, convenience and integration.

PalmPal Marketing Strategy

Palmistry's marketing strategy takes advantage of two concurrent trends: The rapid growth of acceptance of palmtop computing systems in industrial and commercial vertical industry applications, and the increasing need for more sophisticated and flexible inventory management as the automobile dealership industry consolidates and grows in size.

Recent figures from the National Automobile Dealers Association show:

- Total auto dealership sales are more than \$500 billion annually and growing.
- More than 22,500 new-car dealerships exist, a number that has dropped approximately 50 units annually for the past several years.
- The industry has consolidated drastically, with the number of smaller dealerships selling fewer than 150 vehicles annually shrinking from 13,100 in 1977 to 4,540 in 1997.
- Information systems have become steadily more important to the remaining larger dealerships, with special concern being paid to the need for open systems for information interchange and dealer purchase of hardware.

- The PalmPilot computing platform has become the fastest-selling computer device in the history of the industry. Facts include:
- More than 3 million units have been sold in approximately two years.
- Thousands of third-party software developers have written applications for many niche uses.
- The PalmPilot's ruggedness, versatility and extreme portability make it the most popular choice for industrial vertical application software developers.

Palmistry has priced its product to compete with both off-the-shelf general-purpose database and inventory management systems for the Pilot and with existing laptop-based inventory management systems specific to the auto dealership industry.

Pricing of approximately \$10,000 for a five-unit site license, including five PalmPilot III computers, training, and an annual maintenance contract, has proved acceptable to dealerships, and is far below what competing products based on larger systems sell for.

Palmistry is using direct mail marketing to auto dealership information systems managers, followed up with telemarketing and personal sales calls as its primary marketing modality. This approach takes maximum advantage of the company principals' reputation and visibility in the Ohio automobile dealership community.

As marketing for the PalmPal is rolled out nationwide to all 22,500 potential auto dealer customers, additional marketing dollars will be required to produce and deliver direct mail marketing materials, conduct telemarketing follow-up calls and arrange for personal sales calls to especially promising prospects. A significant concern will be staffing these functions with appropriately skilled personnel.

Palmistry believes it can achieve a 9 percent market share within four years. System sales to approximately 2,000 dealerships, at an average purchase price of \$10,000, indicates total sales through 2003 of approximately \$2 million, with over half that amount occurring in the final year as the effect of prior marketing efforts begins to make itself felt.

Program Development And Operations

One of Palmistry's prime advantages is the combined expertise of its principals in the design, development and maintenance of software for portable applications and for the automobile dealer industry.

The principal technologists, Bradley Regent and Perry Honeywell, combine years of expertise in, respectively, auto dealership information systems and portable platform software development. In addition to extensive training in industry-standard database management systems, which allows Mr. Regent to effectively interface PalmPal data with existing dealership computer systems, he maintains a network of beta testers, consisting primarily of auto dealership IS managers, sales managers, salespeople and inventory management personnel, to help with testing, product development, feature refinement and other tasks.

Mr. Honeywell is a recognized expert in third-party PalmPilot software development. He serves on the advisory board for developing and maintaining standards for vertical industry software applications for the PalmPilot. His contacts and experience within the palm-top software field ensure that Palmistry will have continual access to the latest and best technology for developing its products.

Management believes this combination of industry-specific expertise and broad PalmPal application development experience make it unique among companies addressing the inventory management needs of automobile dealerships. Other competitors include EDS, Digital Dealership, Microsoft and SAP. All of these companies are far larger than Palmistry and capable of bringing much greater resources to bear on the market. However, it is the opinion of Palmistry management that the company's lead time in developing applications for this market, plus the niche's small size in relation to the markets its competitors are primarily interested in will provide the company with a long-lasting opportunity to secure a solid market edge in the field.

Palmistry operates out of offices at 26209 Fairfax Ave. in Cincinnati, Ohio. The offices, comprising approximately 5,000 square feet, offer adequate room for anticipated expansion over the next five years. Terms are flexible and management believes the rate is competitive with comparable office space in the city.

In addition to office furniture and fixtures, Palmistry's primary physical assets consist of five computer workstations used for application development. The company also maintains a varying number of PalmPilot models to be used for application testing and development.

Palmistry's inventory is limited to prepackaged versions of its software, and a small number of PalmPilots that are maintained in ready inventory for use in customer installations requiring rapid response. Most customer installations involve PalmPilots ordered from Palm Computing specifically for certain customers. This practice minimizes inventory carrying costs while maintaining an acceptable level of responsiveness in the majority of situations.

Historical Financial Statements And Projections

Palmistry's start-up was financed by \$80,000 contributed by Bradley Regent. The current financial plan anticipates raising an additional \$500,000 to be used to market and distribute PalmPal nationwide. Equity ownership would be distributed as shown, below following this financing.

Pro Forma Statement Of Equity Ownership

Owner	Stock Class	Shares	Amount
Mr. Regent	Common	350,000	\$660,000
Ms. McIntire	Common	2,000	44,000
Mr. Honeywell	Common	4,000	88,000
Mr. Wise	Common	2,000	44,000
Investors	Preferred	100,000	500,000
TOTAL		458,000	\$1,336,000

The proceeds of this financing will allow Palmistry to expand distribution and marketing of its PalmPal product nationwide.

Palmistry Income Statement

	1998	1999
NET SALES	\$0	\$55,600
COGS	0	32,475
Gross Margin	\$0	\$23,125
Operating Costs		
Development	\$27,866	\$13,887
SG&A	4,835	17,652
Other	1,325	1,796
Total Operating Costs	\$34,026	\$33,335
Operating Earnings	-34,026	-10,210
Interest Expense	-986	-1,425
Pretax Earnings	-35,012	-11,635
Income Tax	0	0
Net Income	-\$35,012	-\$11,635

Notes to income statement: Palmistry's income statement for the first two years of operations reflects no sales revenues the first year, when the founder's efforts were devoted to developing the product. Development costs that year were correspondingly high. Sales the second year took off nicely, and gross margin was also in line. However, heavy marketing expenses took their toll, and the company has produced a net loss of more than \$42,000 for its first two years in operation.

Palmistry Balance Sheet

December 31, 1999

ASSETS

Cash	\$36,000
Accounts Receivable	11,853
Inventory	787
Prepaid Expenses	2,796
Other Current Assets	1,116

Total Current Assets	\$52,552
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Fixed Assets	17,564
Intangibles	1
Other Noncurrent Assets	0

Total Assets	\$70,117
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LIABILITIES

Notes Payable	\$7,623
Accounts Payable	2,274
Interest Payable	783
Taxes Payable	652
Other Current Liabilities	1,584

Total Current Liabilities	\$12,916
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Long-term Debt	0
Other Noncurrent Liabilities	2,121

Total Liabilities	\$15,037
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Net Worth	55,080
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Total Liabilities & Net Worth	\$70,117
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Note to balance sheet: Assets included \$36,000 in cash from the founder's \$80,000 initial capitalization.

Palmistry Cash Flow Statement

Sources Of Cash

Sales	\$55,600
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Total Cash In	\$55,600
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Uses Of Cash

COGS	\$32,475
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SG&A	17,652
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Other	1,796
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Interest	1,425
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Taxes	0
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Equipment Purchase	4,320
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Total Cash Out	\$57,668
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NET CHANGE IN CASH	-2,068
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Beginning Cash On Hand	37,201
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Ending Cash On Hand	\$35,133
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Palmistry Pro Forma Income Statement

INCOME PROJECTION

	2000	2001	2002	2003
INCOME				
Net Sales	\$127,500	\$191,250	\$525,938	\$1,051,876
Cost Of Sales	63,750	91,800	241,931	525,938
Gross Profit	\$63,750	\$99,450	\$284,007	\$525,938

OPERATING EXPENSES

General & Administrative Expenses

Salaries And Wages	\$77,525	\$95,625	\$157,781	\$175,375
Sales Commissions	6,375	9,563	26,297	52,594
Rent	3,200	3,360	3,528	3,704
Maintenance	1,275	1,339	1,406	1,476
Equipment Rental	1,125	1,181	1,240	1,302
Furniture And Equipment Purchase	6,000	2,222	1,562	2,640
Insurance	1,520	1,596	1,676	1,999
Interest Expenses	1,250	1,313	1,379	2,606
Utilities	1,100	1,155	1,213	1,274

Office Supplies	650	826	2,177	977
Marketing And Advertising	100,150	65,500	80,000	90,000
Travel	10,500	12,500	15,000	17,500
Entertainment	600	301	426	555
Bad Debt	500	191	526	323
Depreciation And Amortization	1,800	2,700	4,050	6,075
TOTAL OPERATING EXPENSES	\$213,570	\$199,372	\$298,261	\$358,400
Net Income Before Taxes	-\$149,820	-\$99,922	-\$14,254	\$167,538
Provision For Taxes On Income	0	0	0	25,131
NET INCOME AFTER TAXES	-\$149,820	-\$99,922	-\$14,254	\$142,407

Notes to income projections: Sales projections reflect assumptions of progressively greater rollout into the national market, with accordingly higher levels of sales. Heavy first-year marketing expenses level off as national distribution is achieved. Sales increase in subsequent years as the effect of initial marketing efforts is felt. Wage and salary increases reflect need to hire additional programmers, salespeople and administrative personnel to cope with higher sales.

Sustained profitability is achieved in 2003. Projected income tax reflects effects of applying net operating loss from prior years to 2003 profits.

Palmistry Pro Forma Balance Sheet

	1999	% Sales	2000 (projected)
Sales	\$55,600		\$127,500
ASSETS			
Cash	\$36,000	64.7%	\$82,493
Accounts Receivable	11,853	21.3%	27,158
Inventory	787	1.4%	1,785
Prepaid Expenses	2,796	5.0%	6,375
Other Current Assets	1,116	2.0%	2,550
Total Current Assets	\$52,552	94.5%	\$120,488

Fixed Assets	17,564	31.6%	40,290
Intangibles	1	0.0%	0
Other Noncurrent Assets	0		0
Total Assets	\$34,117		\$78,285
LIABILITIES			
Notes Payable	\$7,623	13.7%	\$17,468
Accounts Payable	2,274	4.1%	5,228
Interest Payable	783	1.4%	1,785
Taxes Payable	652	1.2%	1,530
Other Current Liabilities	1,584		1,671
Total Current Liabilities	\$12,916		\$27,682
Long-term Debt	0		0
Other Noncurrent Liabilities	2,121		3,222
Total Liabilities	\$15,037		\$30,904
Net Worth	\$55,080		\$129,874
Total Liabilities & Net Worth	\$70,117		\$160,778

Note to balance sheet projection: Balance sheet projections were based on relationships between various items reflected in 1999 actual results. Intangibles include goodwill, proprietary technology and long-term service and maintenance contracts.

Palmistry Pro Forma Cash Flow Statement

Projected Cash Flow: 2000												
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec. TOTAL
CASH RECEIPTS												
Income From Sales												
Sales	\$7,650	\$7,650	\$8,925	\$8,925	\$10,200	\$10,200	\$11,475	\$11,475	\$11,475	\$12,750	\$12,750	\$14,025
Total Cash From Sales	7,650	7,650	8,925	8,925	10,200	10,200	11,475	11,475	11,475	12,750	12,750	14,025
												\$127,500
												\$127,500
Financing Income												
Net Offering	433,000	0	0	2,500	0	0	0	0	0	0	0	
Proceeds												\$435,500
Interest Income	3,500	3,500	2,500	2,500	2,000	2,000	1,750	1,750	1,500	1,500	1,250	1,250
												\$25,000
Total Cash Receipts	444,150	11,150	11,425	13,925	12,200	12,200	13,225	13,225	12,975	14,250	14,000	15,275
												\$588,000
CASH DISBURSEMENTS												
Expenses												
COGS	3,825	3,825	4,462	4,462	5,099	5,099	5,737	5,737	5,737	6,374	6,374	7,012
												\$63,743
SG&A	12,100	10,555	9,228	6,025	8,750	8,222	9,557	9,525	9,222	10,500	8,750	9,685
												\$112,119
Taxes	0	0	0	0	0	0	0	0	0	0	0	0
												\$0
Equipment Purchase	8,000	0	0	0	0	0	4,000	0	0	0	0	0
												\$12,000
Dividends	0	0	0	0	0	0	0	0	0	0	0	0
												\$0
Total Cash Disbursements	23,925	14,380	13,690	10,487	13,849	13,321	19,294	15,262	14,959	16,874	15,124	16,697
												\$187,862
Net Cash Flow	\$420,225	-\$3,230	-\$2,265	\$3,438	-\$1,649	-\$1,121	-\$6,069	-\$2,037	-\$1,984	-\$2,624	-\$1,124	-\$1,422
												\$400,138
Opening Cash Balance	36,000	456,225	452,995	450,730	454,168	452,519	451,398	445,329	443,292	441,308	438,684	437,560
												\$0
Cash Receipts	444,150	11,150	11,425	13,925	12,200	12,200	13,225	13,225	12,975	14,250	14,000	15,275
												\$588,000
Cash Disbursements	-23,925	-14,380	-13,690	-10,487	-13,849	-13,321	-19,294	-15,262	-14,959	-16,874	-15,124	-16,697
												-\$187,862
Ending Cash Balance	\$456,225	\$452,995	\$450,730	\$454,168	\$452,519	\$451,398	\$445,329	\$443,292	\$441,308	\$438,684	\$437,560	\$436,138

Note to cash flow projection: Cash flow projections for 2000 reflect offering proceeds, net of fees, of \$433,000. Interest income is generated from investing excess proceeds of offering.